No. 14-1513

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,

v.

PULSE ELECTRONICS, INC., *ET AL.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF YAHOO! INC. AND ARTHREX, INC. AS *AMICI CURIAE* IN SUPPORT OF AFFIRMANCE

KEVIN T. KRAMER
Deputy General Counsel – Intellectual Property
YAHOO! INC.
701 First Ave.
Sunnyvale, CA 94089
Counsel for Yahoo! Inc.

JOHN W. SCHMIEDING
Vice President, General Counsel
ARTHREX, INC.
1370 Creekside Blvd.
Naples, FL 34108
Counsel for Arthrex, Inc.

JEFFREY A. LAMKEN
Counsel of Record
MICHAEL G. PATTILLO, JR.
JAMES A. BARTA
MOLOLAMKEN LLP
The Watergate, Suite 660
600 New Hampshire Ave., NW
Washington, D.C. 20037
(202) 556-2000
jlamken@mololamken.com

TUONGVY LE
MOLOLAMKEN LLP
540 Madison Ave.
New York, NY 10022
Counsel for Amici Curiae

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D.C. 20002

QUESTIONS PRESENTED

This case concerns the threshold standard for awarding enhanced damages for patent infringement under 35 U.S.C. § 284. Specifically, it includes:

1. Whether enhanced damages are available only in cases of "willful"—*i.e.*, knowing or reckless—infringement, or are instead available for instances of egregious misconduct (such as malicious conduct undertaken with intent to injure others).

2. Whether a plaintiff may obtain enhanced damages under a theory of "willful infringement" where the defendant's conduct was non-infringing under an objectively reasonable construction of the patent claims.

TABLE OF CONTENTS

	Page
Interest of *Amici Curiae*	1
Introduction and Summary of Argument	2
Argument	5
I. Enhanced Damages Have Long Been Reserved for Egregious Misconduct	6
A. Common-Law Principles Confine Multiple-Damages Awards to Willful, Wanton, or Egregious Conduct	6
B. The Patent Act Reflects Common-Law Restrictions on Enhanced Damages	7
C. The Federal Circuit's Sole Focus on "Willful Infringement" Is Misguided	10
II. The Federal Circuit's Current Formulation of the Standard for Willful Infringement Is Correct	13
A. This Court's Decision in *Safeco* Establishes the Standard for "Willfulness"	13
B. The Federal Circuit Properly Adopted the *Safeco* Standard	15
C. This Court Should Reject Efforts To Convert *Safeco*'s Objective Standard Into an Inquiry Into Past Subjective Beliefs	18
D. Adherence to *Safeco*'s Objective-Unreasonableness Threshold Is Critical to the Proper Functioning of the Patent System	23

TABLE OF CONTENTS—Continued

Page

1. An Objective-Unreasonableness Threshold Promotes the Patent System's Purposes—To Disseminate Knowledge and Spur Innovation 23
2. An Objective-Unreasonableness Threshold Helps To Stem the Flood of Enhanced-Damages Awards 28
3. An Objective-Unreasonableness Threshold Helps To Mitigate Forum Shopping 29

III. The Federal Circuit Correctly Denied Enhanced Damages Here 31

Conclusion 34

TABLE OF AUTHORITIES

Page(s)

CASES

Advanced Fiber Techs. (AFT) Tr. v. *J&L Fiber Servs., Inc.*, 674 F.3d 1365 (Fed. Cir. 2012) 27

Aro Mfg. Co. v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) 9

B.F. Goodrich Co. v. *Consol. Rubber Tire Co.*, 251 F. 617 (7th Cir. 1918) 8

Bard Peripheral Vascular, Inc. v. *W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012) 16, 27, 30

Beatrice Foods Co. v. *New Eng. Printing & Lithographing Co.*, 923 F.2d 1576 (Fed. Cir. 1991) 10

Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) 24

Brenner v. *Manson*, 383 U.S. 519 (1966) 23

Cheek v. *United States*, 498 U.S. 192 (1991) 18, 30

Copease Mfg. Co. v. *Am. Photocopy Equip. Co.*, 298 F.2d 772 (7th Cir. 1961) 9

Corning v. *Burden*, 56 U.S. (15 How.) 252 (1853) 8

Coryell v. *Colbaugh*, 1 N.J.L. 77 (1791) 6, 7

Crawford-El v. *Britton*, 523 U.S. 574 (1998) 26

Day v. *Woodworth*, 54 U.S. (13 How.) 363 (1851) 8

Dean v. *Mason*, 61 U.S. (20 How.) 198 (1858) 8

TABLE OF AUTHORITIES—Continued

Page(s)

E-I-M Co. v. *Phila. Gear Works*, 223 F.2d 36 (5th Cir. 1955) 9

eBay Inc. v. *MercExchange, LLC*, 547 U.S. 388 (2006) 18

Exxon Shipping Co. v. *Baker*, 554 U.S. 471 (2008) 6

Farmer v. *Brennan*, 511 U.S. 825 (1994) 14, 20

Forest Grove Sch. Dist. v. *T.A.*, 557 U.S. 230 (2009) 9

Genay v. *Norris*, 1 S.C.L. 6 (1784) 7

Global-Tech Appliances, Inc. v. *SEB S.A.*, 131 S. Ct. 2060 (2011) 20

Harlow v. *Fitzgerald*, 457 U.S. 800 (1982) 26, 27, 29

Hogg v. *Emerson*, 52 U.S. (11 How.) 587 (1850) 8

Jurgens v. *CBK, Ltd.*, 80 F.3d 1566 (Fed. Cir. 1996) 2, 10, 11, 12, 13

Kingsley v. *Hendrickson*, 135 S. Ct. 2466 (2015) 21

Markman v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996) 21

Milgo Elec. Corp. v. *United Bus. Commc'ns, Inc.*, 623 F.2d 645 (10th Cir. 1980) 33

Ornelas v. *United States*, 517 U.S. 690 (1996) 30

Pac. Mut. Life Ins. Co. v. *Haslip*, 499 U.S. 1 (1991) 7

TABLE OF AUTHORITIES—Continued

Page(s)

Pfaff v. *Wells Elecs., Inc.*, 525 U.S. 55 (1998) 23, 25

Plumley v. *Mockett*, 836 F. Supp. 2d 1053 (C.D. Cal. 2010) 27

Powell v. *Home Depot U.S.A., Inc.*, 663 F.3d 1221 (Fed. Cir. 2011) 16, 32

Power Specialty Co. v. *Conn. Light & Power Co.*, 80 F.2d 874 (2d Cir. 1936) 8

Read Corp. v. *Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992) 11

Reed v. *Davis*, 21 Mass. 216 (1826) 7

Rompilla v. *Beard*, 545 U.S. 374 (2005) 21

Russell Box Co. v. *Grant Paper Box Co.*, 203 F.2d 177 (1st Cir. 1953) 10

Safeco Ins. Co. of Am. v. *Burr*, 551 U.S. 47 (2007) ..... *passim*

Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945) 24

In re Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), cert. denied, 552 U.S. 1230 (2008) ..... *passim*

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 33

Seymour v. *McCormick*, 57 U.S. (16 How.) 480 (1854) 7, 8, 31

Slimfold Mfg. Co. v. *Kinkead Indus., Inc.*, 932 F.2d 1453 (Fed. Cir. 1991) 24

TABLE OF AUTHORITIES—Continued

Page(s)

Spine Sols., Inc. v. *Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305 (Fed. Cir. 2010) 16

State Indus., Inc. v. *A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985) 24

Tarkus Imaging, Inc. v. *Adobe Sys., Inc.*, 867 F. Supp. 2d 534 (D. Del. 2012) 27

Topliff v. *Topliff*, 145 U.S. 156 (1892) 8

Uniloc USA, Inc. v. *Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011) 16

W.S. Godwin Co. v. *Int'l Steel Tie Co.*, 29 F.2d 476 (6th Cir. 1928) 9

Weston Elec. Instrument Co. v. *Empire Elec. Instrument Co.*, 155 F. 301 (C.C.S.D.N.Y. 1907) 9

Yarway Corp. v. *Eur-Control USA, Inc.*, 775 F.2d 268 (Fed. Cir. 1985) 10

CONSTITUTIONAL PROVISIONS AND STATUTES

U.S. Const. Art. I 23

Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 ..... 22, 27

35 U.S.C. § 298 22

Patent Act of 1793, ch. 11, § 5, 1 Stat. 322 7

Patent Act of 1800, ch. 25, § 3, 2 Stat. 38 7

Patent Act of 1836, ch. 357, § 14, 5 Stat. 123 7

Patent Act of 1870, ch. 230, 16 Stat. 198:

§ 55, 16 Stat. 206 8

§ 59, 16 Stat. 207 8

TABLE OF AUTHORITIES—Continued

Page(s)

Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792 ..... 9, 27

35 U.S.C. § 112 23

35 U.S.C. § 284 ..... *passim*

OTHER AUTHORITIES

American Intellectual Property Law Ass'n, *Report of the Economic Survey 2013* (July 2013) 22

FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) 25

W. Page Keeton et al., *Prosser and Keeton on Torts* (5th ed. 1984) 6

Mark A. Lemley, *Ignoring Patents*, 2008 Mich. St. L. Rev. 19 (2008) 24

Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 Yale J.L. & Tech. 193 (2007) 30

J. Shawn McGrath & Kathleen M. Kedrowski, *Damages Trends in Patent and Lanham Act Cases*, http://goo.gl/ugt5TC 26

PricewaterhouseCoopers, *2015 Patent Litigation Study* (May 2015) 29, 30

Richard B. Racine & Michele C. Bosch, *Willful Infringement: A Real Concern*, 3 Fed. Cir. B.J. 409 (1993) 26

TABLE OF AUTHORITIES—Continued

Page(s)

Restatement (Second) of Torts (1965)..... 34

1 Joseph Sayer, *The Law of Damages* (1792)..... 6

Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After* In re Seagate: *An Empirical Study*, 97 Iowa L. Rev. 417 (2012)..... 28, 29, 30

Theodore Sedgwick, *A Treatise on the Measure of Damages, or an Inquiry Into the Principles Which Govern the Amount of Compensation Recovered in Suits at Law* (1847)..... 6

Theodore Sedgwick, *A Treatise on the Measure of Damages, or an Inquiry Into the Principles Which Govern the Amount of Pecuniary Compensation Awarded by Courts of Justice* (9th ed. 1912)..... 6

IN THE

Supreme Court of the United States

NO. 14-1513

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC., *ET AL.*,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

BRIEF OF YAHOO! INC. AND ARTHREX, INC. AS *AMICI CURIAE* IN SUPPORT OF AFFIRMANCE

INTEREST OF *AMICI CURIAE*[1]

Yahoo! Inc. is a global technology company that operates one of the most frequently visited sites on the Internet. Throughout its 20-year history, Yahoo has

---

[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici curiae* states that no counsel for a party authored this brief in whole or in part or made a monetary contribution to the preparation and submission of this brief, and no person other than *amici* or their counsel made such a contribution. Pursuant to Supreme Court Rule 37.3, counsel for *amici curiae* represents that all parties to this case have filed letters with the Clerk granting blanket consent to the filing of *amicus curiae* briefs in support of either or neither party.

been a leader in technologies that inform, connect, and entertain users of the World Wide Web.

Arthrex, Inc. is a global medical device company whose mission is to help surgeons better treat their patients. Arthrex is a pioneer in the field of arthroscopy, having developed more than 8,500 innovative products and surgical procedures to advance minimally invasive orthopedics.

Amici are leading innovators in very different fields. But they share important concerns about the proper operation of the Nation's patent laws. *Amici* make major investments in research and development, and they seek patents to protect their innovations. Yahoo has over 2,000 issued U.S. patents. Arthrex has over 315 issued U.S. patents, and approximately 1,100 patents and patent applications worldwide. At the same time, *amici* are frequent targets of patent infringement suits. *Amici* thus have balanced insights on, and experience with, the question presented here, which concerns the proper standard for awarding enhanced damages for patent infringement under § 284.

INTRODUCTION AND SUMMARY OF ARGUMENT

While the question presented has been formulated various ways, the issue before the Court is broad—the threshold standard for awarding enhanced damages under 35 U.S.C. § 284. The Federal Circuit has for years held that enhanced damages requires "willful infringement." See *Jurgens* v. *CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996). And in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), cert. denied, 552 U.S. 1230 (2008), the Federal Circuit adopted a framework for willfulness that requires the patentee to show that the "infringer acted despite an *objectively* high

likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371 (emphasis added).

The Federal Circuit erred in confining enhanced damages to cases of "willful infringement." Historical practice counsels against limiting multiple damages solely to instances of willfulness. Rather, such damages should be available for other egregious misconduct, such as conduct undertaken with a malicious intent to injure others.

Typically, however, plaintiffs seek enhanced damages *not* for malicious conduct, but on the assertion that infringement was "willful." For such run-of-the-mine cases, *Seagate*'s "objective unreasonableness" standard is correct. Indeed, the standard directly implements this Court's teachings regarding "willfulness" in *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007). The Court should retain that objective-unreasonableness standard in cases involving "willfulness," even if that is not a threshold requirement for *all* enhanced-damages cases.

I. At common law, enhanced damages were limited to cases involving wanton or malicious misconduct—in essence criminal conduct. They were reserved for the most egregious cases.

Similar standards governed enhanced damages under the early Patent Acts. In those statutes, Congress gave federal courts discretion to award up to three times the amount of compensatory damages in patent infringement suits. Consistent with common-law principles, enhanced damages were available in—but limited to—cases involving egregious misconduct.

That historical practice should inform the scope of the current enhanced-damages provision, § 284. Enhanced

damages should not be limited to "willful infringement." But they should extend only to the worst offenses.

II. While the Federal Circuit's standard focuses too narrowly on "willfulness," the standard it announced in *Seagate* should control where the plaintiff *does* pursue a willful-infringement theory. That standard—which requires a plaintiff to show that the defendant did not have *objectively reasonable* defenses to patent infringement—provides the correct framework for such claims. Neither petitioner nor the government denies that *Seagate*'s objective-unreasonableness standard is grounded in—indeed, required by—this Court's teachings in *Safeco* regarding the meaning of "willfulness."

III. Requiring a showing of objective unreasonableness for enhanced-damages claims based on "willful" infringement is essential to the proper functioning of the patent system.

That system embodies a bargain, in which a patentee receives an exclusive right to practice an invention for a period of years in exchange for the patentee's disclosure of her discovery. Those disclosures are intended to disseminate knowledge and spur further innovation by others. Yet many companies ignore the knowledge disclosed in patents, for fear that—if they read patents—they will subject themselves to willfulness claims on the ground that they "knew" they were infringing a patent. An objective threshold provides some comfort that companies will be judged based on objective criteria, rather than a jury's speculation that an engineer who reviewed a patent subjectively believed his company's product would infringe.

An objective-unreasonableness standard helps ensure enhanced-damages awards are sought only in appropri-

ate cases. Before *Seagate*, plaintiffs routinely sought enhanced damages regardless of the facts. Since the Federal Circuit implemented *Seagate*'s objective-reasonableness standard, the number of cases in which enhanced damages are actually awarded has been more appropriately limited.

Forum shopping is rampant in patent suits, in part because juries in certain districts are more likely to recommend enhanced damages than in others. Because objective reasonableness—unlike subjective intent—is a legal issue reviewed *de novo*, such a standard gives courts greater ability to impose a uniform, nationwide standard for enhanced damages so that similar cases are treated similarly. That helps eliminate forum shopping, and promotes responsible pre-suit discussion between the parties.

IV. The Federal Circuit correctly denied enhanced damages in this case. Petitioner did not produce evidence that respondents acted with the type of "wanton" or "malicious" misconduct that could itself warrant enhanced damages. And the court correctly held that enhanced damages were not available under a willful-infringement theory, because respondents had objectively reasonable defenses to the claim of patent infringement.

ARGUMENT

The Federal Circuit's current requirement of willful infringement is too narrow. Contrary to more than a century of practice, the test ignores maliciousness and other egregious misconduct for which enhanced damages traditionally have been available. For willful-infringement claims, however, the test correctly applies this Court's teachings in *Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007). This Court should reject the

effort to dilute the standard by which willfulness is determined.

I. Enhanced Damages Have Long Been Reserved For Egregious Misconduct

A. Common-Law Principles Confine Multiple-Damages Awards to Willful, Wanton, or Egregious Conduct

The primary purpose of damages has long been compensation. 1 Theodore Sedgwick, *A Treatise on the Measure of Damages, or an Inquiry Into the Principles Which Govern the Amount of Pecuniary Compensation Awarded by Courts of Justice* §29 (9th ed. 1912) ("*1912 Treatise*"); see also W. Page Keeton et al., *Prosser and Keeton on Torts* §1 (5th ed. 1984). Actual damages thus are the presumptive tort remedy. Sedgwick, *supra*, §29; 1 Joseph Sayer, *The Law of Damages* 242 (1792). Departures from that standard are rare. See Keeton, *supra*, §2.

Enhanced damages—such as punitive and exemplary damages—are traditionally reserved for particularly egregious conduct. "Early common law cases" allowed "exemplary damages" to be awarded as "punishment for extraordinary wrongdoing," *Exxon Shipping Co.* v. *Baker*, 554 U.S. 471, 491 (2008), and to deter "the most atrocious" acts, *Coryell* v. *Colbaugh*, 1 N.J.L. 77, 77 (1791). For example, in 18th-century England, "fraud, malice, gross negligence, or oppression" was necessary for enhanced damages. Theodore Sedgwick, *A Treatise on the Measure of Damages, or an Inquiry Into the Principles Which Govern the Amount of Compensation Recovered in Suits at Law* 38 (1847). Similarly, after the Founding, 19th-century American courts limited enhanced damages to instances of "gross fraud, wantonness, malice or oppression." Sedgwick, *1912 Treatise*, *supra*,

§347. Archetypal cases involved acts such as intentional poisonings, *Genay* v. *Norris*, 1 S.C.L. 6 (1784), seducing a woman and breaking a promise to marry her, *Coryell*, 1 N.J.L. at 77-78, and unlawfully evicting a tenant who had an infant and whose wife lacked adequate clothing, *Reed* v. *Davis*, 21 Mass. 216 (1826). Enhanced- and exemplary-damages awards thus were "rarely assessed and likely to be small in amount." *Pac. Mut. Life Ins. Co.* v. *Haslip*, 499 U.S. 1, 61 (1991) (O'Connor, J., dissenting) (quotation marks omitted).

B. The Patent Act Reflects Common-Law Restrictions on Enhanced Damages

1. Congress acted against that common-law backdrop when it authorized enhanced damages in patent infringement cases. The earliest Patent Acts mandated treble damages for infringement. See Patent Act of 1793, ch. 11, §5, 1 Stat. 322; Patent Act of 1800, ch. 25, §3, 2 Stat. 38. But that rule inflicted a "great injustice" by treating "equally * * * all cases, without regard to their particular merits." *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480, 488 (1854). In 1836, Congress made enhanced damages discretionary. It required courts to award actual damages, but authorized up to treble damages "according to the circumstances of the case." Patent Act of 1836, ch. 357, § 14, 5 Stat. 123.

Informed by common-law principles, courts rarely awarded enhanced damages under the 1836 Patent Act. In *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480 (1854), this Court explained that, as a general matter, "there is no good reason why taking a man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages." *Id.* at 488-489. Other decisions emphasized that enhanced damages are for "aggravated circumstances."

Dean v. *Mason*, 61 U.S. (20 How.) 198, 203 (1858). As this Court explained, enhanced damages are reserved for cases where an "injury is wanton or malicious," *Seymour*, 57 U.S. (16 How.) at 489, or where a "defendant has not acted in good faith, or has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff," *Day* v. *Woodworth*, 54 U.S. (13 How.) 363, 372 (1851). Conversely, a defendant who was "not a wanton infringer" could not be subjected to the same "harsh rule of [treble] damages which might be justly inflicted on a mere pirate." *Corning* v. *Burden*, 56 U.S. (15 How.) 252, 271 (1853); see also *Hogg* v. *Emerson*, 52 U.S. (11 How.) 587, 607 (1850).

In 1870, Congress reaffirmed that district courts could award treble damages "according to the circumstances of the case." Patent Act of 1870, ch. 230, §59, 16 Stat. 207 (actions at law); *id.* §55, 16 Stat. 206 (actions in equity). The cases under the 1870 Patent Act followed the same pattern. This Court, for example, affirmed that enhanced damages were appropriate in cases where malice or intent to injure the plaintiff was apparent. Enhanced damages would be proper, it observed, where a person learns of a patented product while working for a company, opens a rival business, and starts selling infringing products to his former employer's customers. See *Topliff* v. *Topliff*, 145 U.S. 156, 174 (1892).

Lower courts likewise were reluctant to award enhanced damages, limiting recovery to cases involving "willfulness, malice, and a wanton disregard of the rights of the patentee." *B.F. Goodrich Co.* v. *Consol. Rubber Tire Co.*, 251 F. 617, 624 (7th Cir. 1918); see also *Power Specialty Co.* v. *Conn. Light & Power Co.*, 80 F.2d 874, 878 (2d Cir. 1936). Particularly obstructionist litigation conduct or deceptive concealment of infringement might

also justify enhanced damages. See *W.S. Godwin Co.* v. *Int'l Steel Tie Co.*, 29 F.2d 476, 478 (6th Cir. 1928); *Weston Elec. Instrument Co.* v. *Empire Elec. Instrument Co.*, 155 F. 301, 301 (C.C.S.D.N.Y. 1907).

2. Congress enacted the current law—the Patent Act of 1952—against that historical practice. Pub. L. No. 82-593, 66 Stat. 792. The current Act—which "merely" consolidated and "clarif[ied]" existing damages rules, *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 505 n.20 (1964)—mandated actual damages for infringement. 35 U.S.C. §284. But it also retained a provision for enhanced damages: Under §284, a district "court may increase the damages up to three times the amount found or assessed." Underscoring the link to common-law principles, this Court has referred to §284 as a "punitive * * * damages" provision. *Aro Mfg.*, 377 U.S. at 508.

Section 284 offers no express standard for enhanced damages. But Congress's reaffirmation of judicial authority to award enhanced damages, without providing a new standard, represented an implicit approval of existing standards. See *Forest Grove Sch. Dist.* v. *T.A.*, 557 U.S. 230, 239-240 (2009). And for many years after §284's enactment, courts continued to apply the same standard they had applied under the 1836 and 1870 Patent Acts. In *Aro Manufacturing*, for example, this Court characterized enhanced damages as a remedy that would not be available absent "willful or bad-faith infringement." 377 U.S. at 508. Lower courts similarly described enhanced damages as appropriate for "willful," "deliberate," or "wanton" infringement. *Copease Mfg. Co.* v. *Am. Photocopy Equip. Co.*, 298 F.2d 772, 783 (7th Cir. 1961); *E-I-M Co.* v. *Phila. Gear Works*, 223 F.2d 36, 42 (5th Cir. 1955). Egregious litigation conduct, or de-

ceptive acts such as the destruction of records, also could sometimes justify enhanced damages. See *Russell Box Co.* v. *Grant Paper Box Co.*, 203 F.2d 177, 183 (1st Cir. 1953).

C. The Federal Circuit's Sole Focus on "Willful Infringement" Is Misguided

Section 284 should be interpreted consistent with that historical practice. Shortly after the Federal Circuit's inception in 1982, it appeared poised to follow that course. The court identified a variety of circumstances that might justify multiple damages, while recognizing that such an award would be inappropriate except in the most egregious circumstances. See, *e.g.*, *Yarway Corp.* v. *Eur-Control USA, Inc.*, 775 F.2d 268, 277 (Fed. Cir. 1985); see also *Beatrice Foods Co.* v. *New Eng. Printing & Lithographing Co.*, 923 F.2d 1576, 1579 (Fed. Cir. 1991).

Eventually, however, the Federal Circuit reduced that standard to a single element. In *Jurgens* v. *CBK, Ltd.*, 80 F.3d 1566 (Fed. Cir. 1996), the Federal Circuit ruled that enhanced damages should be available *only* for "willful infringement." At the same time, however, *Jurgens* articulated a standard of willfulness that amounted to mere negligence. *Jurgens* began by acknowledging that, "[b]ecause increased damages are punitive," their imposition requires "some degree of culpability." *Id.* at 1570. Either "willful infringement" or "bad faith" were considered sufficient. *Ibid.* But *Jurgens* opined that "the term 'bad faith' has numerous patent law applications," and that "[o]nly some of these are relevant in determining the predicate culpability for an increased damages award." *Ibid.* Ultimately, *Jurgens* concluded that, in this context, "bad faith" is *coextensive* with "willful infringement." See *id.* at 1571.

Having distilled away every basis for enhanced damages other than "willful infringement," *Jurgens* then defined "willfulness" expansively. For years, the Federal Circuit had held that "[o]ne who has actual notice of another's patent rights has an affirmative duty to respect those rights." *Read Corp.* v. *Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992). "That affirmative duty," in the court's view, "normally entails obtaining advice of legal counsel" that the patent is invalid or the conduct is non-infringing. *Ibid.* In *Jurgens*, the Federal Circuit tied that "affirmative duty" to willfulness. It held that, "in the initial determination of culpability" for increased damages, "'bad faith' properly refers to an infringer's failure to meet his affirmative duty to use due care" to "investigate and determine, in good faith, that he possesses reasonable defenses to an accusation of patent infringement." 80 F.3d at 1571. It thus declared, "'[B]ad faith' is more correctly called 'bad faith infringement,' and *it is merely a type of willful infringement.*" *Ibid.* (emphasis added).

Jurgens thus established a standard that was simultaneously over- and under-inclusive. It was under-inclusive because it ignored facts like malice and "motivation for harm" that were traditionally relevant to multiple damages. See *Read*, 970 F.2d at 827. Under *Jurgens*, the Federal Circuit held that such factors are relevant only "in determining whether or *how much to increase* a damages award" *after* willful infringement was established. 80 F.3d at 1571 (emphasis added). That mis-step cannot be reconciled with longstanding, pre-*Jurgens* enhanced-damages precedent. Those cases recognized that an array of conduct—so long as it was truly reprehensible—could justify enhanced damages. See pp. 7-10, *supra*. The court's effort to alter the ordinary re-

quirements for enhanced damages to create a patent-specific formula was mistaken.

At the same time, *Jurgens*' conception of "willfulness" was unacceptably broad. As explained below, willfulness is a demanding standard. But *Jurgens* equated willful infringement with failure to conduct a "good faith" investigation—a "duty to use due care"—to ensure the conduct is not infringing. See 80 F.3d at 1571. That, however, is *not* willfulness. It is, at worst, negligence.

The result of those errors was predictable. The Federal Circuit's expansive view of willfulness led to a flood of enhanced-damages demands and awards for relatively unaggravated infringement. Recognizing it had diluted willfulness to "a lower threshold" that was "akin to negligence," the Federal Circuit eventually reconsidered the issue en banc in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), and reinvigorated the willfulness standard. But the Federal Circuit did not consider whether *Jurgens* had erred in reducing the standard for enhanced damages to the consideration of willfulness standing alone.

This Court should correct the consequences of that zig-zag course. For the reasons given above, the Federal Circuit was wrong to exclude all bases for enhanced damages other than willful infringement. Nevertheless, the vast majority of enhanced-damages claims likely will be claims of willful infringement. And, for the reasons given below, the Federal Circuit's *Seagate* decision got the willfulness standard exactly right.

II. THE FEDERAL CIRCUIT'S CURRENT FORMULATION OF THE STANDARD FOR WILLFUL INFRINGEMENT IS CORRECT

While the Federal Circuit erred in precluding enhanced damages for egregious or malicious misconduct, establishing willful infringement as the sole basis for such damages awards, the vast majority of enhanced-damages claims are based on allegations of willful infringement. And, for cases alleging willful infringement, the standard the Federal Circuit adopted in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007)—which requires the plaintiff to show that the defendant did not have *objectively reasonable* defenses—is correct. It properly evaluates, follows, and implements a controlling precedent of this Court—*Safeco Insurance Co. of America* v. *Burr*, 551 U.S. 47 (2007).

A. This Court's Decision in *Safeco* Establishes the Standard for "Willfulness"

Because *Jurgens* had diluted willfulness to "a lower threshold" that was "akin to negligence," the Federal Circuit found itself inundated with unmeritorious claims for enhanced damages. *Seagate*, 497 F.3d at 1371. In *Seagate*, the Federal Circuit went en banc to realign its definition of willfulness with the standard this Court, and many others, had articulated in comparable circumstances. In particular, the Federal Circuit recognized that this Court had "addressed the meaning of willfulness as a statutory condition of civil liability for punitive damages" in *Safeco*. *Id.* at 1370. The Federal Circuit appropriately looked to *Safeco*'s teachings regarding "willfulness" in defining the framework for enhanced-damages claims under §284 based on willful patent infringement.

Safeco concerned whether the defendant was liable under the Fair Credit Reporting Act, which imposes civil liability on defendants for "willful[ ]" violations. 551 U.S. at 52. Willfulness, this Court explained, covers both "knowing" and "reckless" actions. *Id.* at 57. In the civil context, recklessness is defined as "conduct violating an *objective* standard: action entailing 'an unjustifiably high risk of harm that is either known or so obvious that it should be known.'" *Id.* at 68 (quoting *Farmer* v. *Brennan*, 511 U.S. 825, 836 (1994)) (emphasis added). This Court held that, to establish a "willful" violation, the plaintiff had to prove that the defendant knew, or recklessly disregarded, "an unjustifiably high risk" that its conduct violated the statute. That "objective" standard, the Court held, could not be met if the defendant's conduct was consistent with an "objectively reasonable"—even if mistaken—construction of legal requirements, regardless of the defendant's subjective beliefs. *Id.* at 68-69, 70 n.20. Thus, regardless of claims regarding the defendant's subjective mental state, compliance with an objectively reasonable construction foreclosed liability for "willful" violations.

This Court applied that standard to the case before it. One of the central disputes in *Safeco* was the meaning of certain FCRA provisions regarding notices to consumers who had been subjected to adverse actions based on information in a credit report. 551 U.S. at 52, 61-67. The district court had accepted the defendant's construction of that provision and granted summary judgment in its favor; the challenged conduct did not violate the FCRA under that construction. *Id.* at 55. This Court disagreed with that construction of the FCRA and ruled that, under the correct construction, the defendant may have violated the statute. *Id.* at 67-68.

The Court, however, held that it was "clear enough that if [the defendant] did violate the statute, the company was not reckless." 551 U.S. at 68. Although the Court "disagree[d] with [the defendant's] analysis" of the statute, it "recognize[d] that [the defendant's] reading ha[d] a foundation in the statutory text, and a sufficiently convincing justification to have persuaded the District Court to adopt it and rule in [the defendant's] favor." *Id.* at 69-70 (citation omitted). Thus, while the defendant's construction of the FCRA was "erroneous," it "was not objectively unreasonable." *Id.* at 69. And because the defendant's "reading was not objectively unreasonable," the Court held, it "falls well short of raising the 'unjustifiably high risk' of violating the statute necessary for reckless liability"—and, hence, willfulness—as a matter of law. *Id.* at 70.

Safeco rejected as "unsound" the contention that evidence of the defendant's "subjective" beliefs "must be taken into account in determining whether a company acted knowingly or recklessly," even if the defendant's construction was "objectively reasonable." 551 U.S. at 70 n.20. The Court explained that, where circumstances "allow for more than one reasonable interpretation, it would defy history and current thinking to treat a defendant who merely adopts one such interpretation as a *knowing or reckless* violator," "whatever [its] subjective intent may have been." *Ibid.* (emphasis added).

B. The Federal Circuit Properly Adopted the *Safeco* Standard

In *Seagate*, the Federal Circuit applied *Safeco*'s teachings regarding "willfulness" to establish the framework for claims of "willful infringement" under § 284. *Seagate* requires "a two-pronged analysis" for willful infringement "entailing separate objective and subjective inquir-

ies." *Powell* v. *Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011). Consistent with *Safeco*, the first prong "requires at least a showing of objective recklessness." *Seagate*, 497 F.3d at 1371. That is, the infringer must have "acted despite an *objectively high likelihood* that its actions constituted infringement of a valid patent." *Ibid.* (emphasis added) (citing *Safeco*, 551 U.S. at 69). The analysis "entails an objective assessment of potential defenses based on the risk presented by the patent." *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012). "Those defenses may include," among other things, "questions of infringement" (whether the patent's claims read on the accused product) and the patent's "validity" (*e.g.*, whether it is anticipated or obvious). *Ibid.* Where the accused infringer can present "'a reasonable defense to a charge of infringement,' the objective prong" of the willful infringement analysis "tends not to be met." *Powell*, 663 F.3d at 1236 (quoting *Spine Sols., Inc.* v. *Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010)).

Consonant with the goal of judicial efficiency, the Federal Circuit treats that objective prong of willful infringement as a "threshold" inquiry. *Seagate*, 497 F.3d at 1371. If the defendant's defenses are objectively reasonable, the court never reaches the second prong, which concerns the defendant's subjective beliefs. See, *e.g.*, *Powell*, 663 F.3d at 1236; *Uniloc USA, Inc.* v. *Microsoft Corp.*, 632 F.3d 1292, 1311 (Fed. Cir. 2011).

That conforms with *Safeco*, which rejected efforts to overcome the standard of *objective* reasonableness with evidence of subjective belief. Where the defendant's conduct is noninfringing under a reasonable construction, the requisite "objectively high" risk of infringement does

not exist. See pp. 13-15, *supra*. No amount of speculation about the defendant's mental state can convert an objectively reasonable risk into an unreasonably high one. *Safeco*, 551 U.S. at 70 n.20.

Petitioner and the government both argue that *Seagate* erred in holding that *Safeco*'s "objective recklessness" standard "is always a prerequisite to enhanced damages." U.S. Br. 27; see Pet. Br. 23 ("*Seagate* wrongly imported that objective recklessness test into patent law as the sole prerequisite to enhancing damages * * *."). The Federal Circuit's approach of limiting enhanced damages to cases of willful infringement, they assert, improperly "insulates a substantial subset of the 'wanton and malicious'" misconduct "that enhanced patent damages have traditionally served to punish and deter." U.S. Br. 26; see pp. 10-12, *supra*.

Those arguments, however, are addressed solely to whether *willfulness* should be the *exclusive* standard for enhanced-damages awards. We agree that it should not. But neither petitioner nor the government seriously disputes that, where a claim for enhanced damages *is* based solely on an assertion of "willful"—*i.e.*, knowing or reckless—infringement, *Safeco* requires the plaintiff to show that the defendant "acted despite an *objectively high likelihood* that its actions constituted infringement of a valid patent." *Seagate*, 497 F.3d at 1371 (emphasis added). Nor could they. *Safeco*'s holding that "willfulness" requires a showing of "objective[ ] unreasonable-[ness]," 551 U.S. at 70, was based on "the common law understanding" of that term, *id.* at 69. There is no reason why a different definition of "willful" should apply to willful infringement here. See pp. 7-10, *supra*. Indeed, adopting a different, patent-law-specific understanding of a common-law concept such as "willfulness"

would defy this Court's guidance. Cf. *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 391 (2006).

C. This Court Should Reject Efforts To Convert *Safeco*'s Objective Standard Into an Inquiry Into Past Subjective Beliefs

Petitioner and the government argue that, "[e]ven if the objective reasonableness of a defendant's conduct could preclude an enhanced-damages award under Section 284, the reasonableness analysis should turn on the facts and circumstances known to the defendant *at the time of the infringing conduct*." U.S. Br. 28-29; Pet. Br. 24. Thus, they assert, it cannot take into account all defenses asserted "*at trial*." U.S. Br. 31. That makes no sense in principle. It seeks to convert an objective inquiry into a subjective one. And it is unworkable in practice.

The government asserts that *Safeco* was decided on the "understanding" that the defendant "had *actually relied* on a reasonable (though erroneous) interpretation of the FCRA." U.S. Br. 30. But this Court has rejected that theory, which would require defendants to show *both subjective* good faith—actual reliance on a particular interpretation—*and objective* reasonableness. See *Cheek* v. *United States*, 498 U.S. 192, 201, 203 (1991). As *Cheek* explained, a defendant can negate a showing of willfulness by demonstrating that he *subjectively* believed his conduct was lawful, even if that belief was *not* objectively reasonable. *Id.* at 203. Under *Cheek*, subjective belief and objective reasonableness are alternative means of disproving willfulness; one is for the finder of fact, and the other is an issue of law for the court. *Ibid.*

Safeco never contradicts that conclusion. Nowhere did it hold that objective reasonableness can be evaluated only by reference to positions on which the defendant

"actually relied" prior to trial. To the contrary, the Court flatly stated that a company "*does not act in reckless disregard* of [the FCRA] unless the action is * * * a violation *under a reasonable reading of the statute's terms*." 551 U.S. at 69 (emphasis added); see *id.* at 69-70 (defendant's "reading has a foundation in the statutory text"). And the Court likewise considered the defendant's post-hoc "*justification*" for its position, presented in the course of litigation, which was "sufficiently convincing * * * to have persuaded *the District Court* to adopt it and rule in [defendant's] favor." *Id.* at 70 (emphasis added). The Court plainly considered the strength of the defenses asserted at trial to be relevant to the "objective reasonableness" of the defendant's position.

The government's approach is, in any event, at war with the concepts of willfulness and recklessness. *Safeco* explains that recklessness requires an "objective" assessment of whether there was "an unjustifiably high risk" of a violation. 551 U.S. at 68 (quotation marks omitted). An individual's *subjective* beliefs about an issue at some specific point in time have no bearing on the *objective* likelihood of a condition existing. A person may subjectively believe that the earth is flat, but that does not make it any less likely that, viewed from an objective standpoint, the world is round. Likewise here: The claim that a defendant supposedly was unaware of its strongest arguments does not alter the *objective* likelihood that its conduct is lawful. The government's reliance on "knowledge" as an alternative suffers from the same defect.[2]

---

[2] The United States urges that, under *Safeco*, a plaintiff "may prove a willful violation by establishing *either* the defendant's objective recklessness or its *knowing* misconduct." U.S. Br. 28. But actual knowledge is a standard that "surpasses recklessness and negli-

The government's request that courts focus on the defendant's state of mind at a certain point in time is, at bottom, a request that the Court *abandon* the objective test. Under the government's view, courts would not examine the objective reasonableness of the defendant's conduct. They would consider what the defendant *believed* its defenses were in the past. But such inquiries are both perilous and irrelevant. It is often easy to find subjective assertions in scattered emails (often from people who have no idea how to read a patent or how to determine invalidity). Or oral discussions and hinted conclusions may go unrecognized. But that has no bearing on whether the *likelihood* of infringement was unacceptably high on an *objective* basis.

The government cites cases from other contexts, such as determining whether an officer used excessive force or conducted a reasonable search, as supporting its position that determining whether actions "were objectively reasonable" requires a "time-of-action analysis." U.S. Br. 29. But those cases are not analogous. In each instance, the ultimate question of "objective reasonable-

---

gence." *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2070 (2011). A party cannot logically be said to have "*known*" that it was infringing a valid patent where the plaintiff cannot show recklessness—*i.e.*, that there was "'an unjustifiably high risk of harm that is either known or so obvious that it should be known.'" *Safeco*, 551 U.S. at 68 (quoting *Farmer*, 511 U.S. at 836) (emphasis added). The government conflates *knowledge* (subjective awareness of a *certainty*) with subjective *belief*. It simply makes no sense to say someone *knew* a fact to be true where, as an objective matter, anyone with perfect knowledge of available information would admit considerable uncertainty. As this Court explained in *Safeco*, "it would defy history and current thinking to treat a defendant who merely adopts one" of several reasonable "interpretation[s] as a *knowing or reckless* violator." *Id.* at 70 n.20 (emphasis added).

ness" is directed to the defendant's *conduct itself*. Whether conduct is reasonable under the circumstances can be assessed only in light of the facts the person "knew at the time, not with the 20/20 vision of hindsight." *Kingsley* v. *Hendrickson*, 135 S. Ct. 2466, 2473 (2015); see also *Rompilla* v. *Beard*, 545 U.S. 374, 381 (2005).

But determining whether a defendant's *infringement* is willful—*i.e.*, whether there is a willful *violation*—requires *interpreting and applying legal standards*. The question in that context is whether, based on those standards, it would be *objectively reasonable to believe* the conduct lawful. Very often, that analysis turns not on the facts but on legal questions, such as the proper construction of the patent itself. *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 387 (1996). Where the defendant's conduct is not infringing under a reasonable construction of the patent claims, his conduct is objectively reasonable—regardless of subjective intent. Asking what facts the defendant knew, and when, has nothing to do with an "objective" assessment of whether there was "an unjustifiably high risk" that a certain product or conduct infringes a patent, or whether a patent will be found valid. *Safeco*, 551 U.S. at 68 (quotation marks omitted).

It is telling that neither petitioner nor the government explains how a "time-of-action analysis" would apply in determining whether patent infringement was "willful." As a practical matter, if objective reasonableness turned solely on defenses that companies documented at the time of infringement, companies could protect themselves against later charges of willfulness only by obtaining an opinion of counsel with respect to every patent that comes to their attention. But such opinions are expensive—the median cost for an opinion on infringe-

ment and validity is $15,000. American Intellectual Property Law Ass'n, *Report of the Economic Survey 2013*, at 27 (July 2013). It simply is not feasible to obtain an opinion every time an employee views a patent.

In the Leahy-Smith America Invents Act, Congress recognized that failure to obtain an opinion of counsel should not open a defendant to charges of enhanced damages. It provided that "failure * * * to obtain the advice of counsel," or failure to present that advice as evidence, "may not be used" to prove that infringement was "willful[]." 35 U.S.C. §298. Petitioner's and the government's standard undermines that congressional intent. Under their standard, even if the absence of an opinion cannot be used *against* an accused infringer per §298, a defendant still would need an opinion to *substantiate* an objective-reasonableness defense as of the time of infringement.

Nor is it clear what "time" would govern a time-of-action analysis. It is no exaggeration to say that products change daily in high-tech industries. Would a new analysis and opinion be required with every change? Or what if another party challenges the relevant patent before the PTO in an *inter partes* review? Would the fact that the PTO grants review itself change the analysis? Perhaps the PTO issues a claim construction opinion concerning the patent, but the Federal Circuit later reverses it, all during the alleged period of infringement—would the likelihood of infringement be evaluated differently for purposes of enhanced damages at each potential inflection point? A time-of-action analysis simply is not workable. Companies need to focus on their job—innovation—and not be required to monitor every development that could affect the possibility of infringement. For that reason, too, the Court should reject a "time-of-

action analysis" for assessing objective reasonableness in the context of willful patent infringement.

D. Adherence to *Safeco*'s Objective-Unreasonableness Threshold Is Critical to the Proper Functioning of the Patent System

Because most claims for enhanced damages are based on allegations of willfulness, *Safeco*'s and *Seagate*'s objective-unreasonableness threshold serves a critical role. It protects the patent system's purpose of promoting knowledge and innovation. It stems the tide of willfulness claims. And it mitigates the effects of forum shopping. Too loose a standard, by contrast, undermines incentives to utilize the patent system.

1. *An Objective-Unreasonableness Threshold Promotes the Patent System's Purposes—To Disseminate Knowledge and Spur Innovation*

The Patent Clause of the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, §8, cl. 8. Accordingly, the patent system reflects "a carefully crafted bargain": The patentee is granted "an exclusive monopoly for a limited period of time" in exchange for "the public disclosure" of a new invention. *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). That disclosure must describe the advance in sufficient detail to enable others to practice it. 35 U.S.C. § 112. The patent itself thus fosters the "dissemination of information concerning discoveries and inventions" to the public. *Brenner* v. *Manson*, 383 U.S. 519, 533 (1966). Those seeking to understand the patented invention do not need to reinvent it, reverse-engineer it, or try to reconstruct it

using disparate sources of information, such as academic articles; they need only read the patent.

That bargained-for disclosure, however, does not merely publicize the invention. It also "promot[es]" further "innovation," *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146, 150-151 (1989), by allowing other inventors to build on the work of patentees who have gone before them, see *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945). Such "imitation and refinement through imitation are both necessary to the invention itself and the very lifeblood of a competitive economy." *Bonito Boats*, 489 U.S. at 146.

A patent's disclosures may also serve as a catalyst for competitors to develop new—and potentially faster, more accurate, and cheaper—ways of achieving the same result. That incentive to "'design around' a competitor's * * * patented" invention is another significant "benefit of [our] patent system." *State Indus., Inc.* v. *A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985); see also *Slimfold Mfg. Co.* v. *Kinkead Indus., Inc.*, 932 F.2d 1453, 1457 (Fed. Cir. 1991). The design-around process—"keeping track of a competitor's products" as disclosed in their patents "and designing new and possibly better or cheaper functional equivalents"—itself "bring[s] a steady flow of innovations to the marketplace." *A.O. Smith*, 751 F.2d at 1235-1236.

The threat of enhanced damages based on "willful" infringement undermines that dynamic. In some industries, it leads "researchers and companies" to "ignore patents." Mark A. Lemley, *Ignoring Patents*, 2008 Mich. St. L. Rev. 19, 21-22 (2008). "Companies and lawyers tell engineers not to read patents in starting their research, lest their knowledge of the patent disadvantage the company by making it a willful infringer." *Ibid.* Such ig-

norance of the innovations disclosed in patents can lead to "wasteful duplication" of research efforts, "delay[s]" in developing "follow-on innovation[s]," and less competition overall. FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 16-17 (Oct. 2003).

Sadly, in today's environment, the advice to ignore the knowledge disclosed in patents is not necessarily ill-founded. Yahoo's experience has shown that being immersed in the patents on file with the PTO increases the risk that, in any suit for patent infringement, the patentee will claim enhanced damages under a theory of "knowing" or "willful" infringement. In several recent cases, patentees have asserted claims for enhanced damages against Yahoo because Yahoo cited them *as prior art* in Yahoo's *own patent applications*.

That result is upside down. Disclosure of the invention to the public is the bargain the patentee makes in exchange for its limited monopoly. *Pfaff*, 525 U.S. at 63. It is not a trap to extract enhanced damages from those who actually read the patent. Whatever standard the Court ultimately adopts, it should make clear that the mere fact that a defendant has used the patent system for one of its primary purposes—research—cannot by itself justify enhanced damages. That intended use of the patent system should be protected. Use of the patent system as intended should be no basis for finding willfulness.

The objective-reasonableness standard of *Safeco* serves that same interest. A purely subjective standard for willfulness destroys the utility of the patent system as a storehouse of knowledge. It would mean that, whenever a researcher, engineer, or other employee knew about the patent, the plaintiff could claim willful infringe-

ment, urging that—no matter how meritorious the defendant's position now—the defendant did not have that belief before litigation. And courts often "consider[ ]" subjective intent a "question of fact * * * inherently requiring resolution by a jury." *Harlow* v. *Fitzgerald*, 457 U.S. 800, 816 (1982).

A subjective standard thus would make claims for enhanced damages difficult to resolve without an expensive and unpredictable trial. Litigation costs and judgments in patent cases already run into seven figures, and penalties for willful infringement can add millions more to a judgment. One study found that the average award between 2000 and 2008 was $17.8 million. J. Shawn McGrath & Kathleen M. Kedrowski, *Damages Trends in Patent and Lanham Act Cases* 2, http://goo.gl/ugt5TC. Many companies simply cannot tolerate the risks and costs of litigation, a fact that gives plaintiffs (including non-practicing entities) a tool for extracting nuisance settlements even in insubstantial cases. See Richard B. Racine & Michele C. Bosch, *Willful Infringement: A Real Concern*, 3 Fed. Cir. B.J. 409, 409 (1993).

Subjective belief, moreover, is "easy to allege and hard to disprove." *Crawford-El* v. *Britton*, 523 U.S. 574, 585 (1998) (quotation marks omitted). That places a company that uses the patent system for research in a bind: If sued, how can the company show that, even if one of its employees knew about a patent, it subjectively believed the patent was not valid or the company was not infringing? One of the few ways for a defendant to substantiate such an argument is to obtain an opinion from counsel. See *Seagate*, 497 F.3d at 1369. As explained above, however, it simply is not feasible for companies to obtain an opinion every time an employee views a

patent—a fact Congress recognized in the AIA. See p. 22, *supra*.

Seagate's objective-unreasonableness standard helps mitigate those problems. Companies can mine the knowledge disclosed in patents—and make determinations about how to utilize or build on that knowledge—with some confidence that, if they are later sued, their conduct will not be judged on speculation regarding what their employees might have thought. Rather, a company's decision to engage in certain conduct notwithstanding a patent will be judged in view of objective indicia of the patent's validity and the likelihood that the company's conduct infringed it. See pp. 15-17, *supra*.

As this Court has explained, moreover, objective standards often may be decided as a matter of law, allowing "resolution of many insubstantial claims on summary judgment." *Harlow*, 457 U.S. at 818. Thus, under current law, courts can determine the "objective" component of the willfulness standard as a matter of law, *Bard*, 682 F.3d at 1006-1007, allowing judges to grant summary judgment on enhanced damages.[3] That helps prevent the costs and uncertainty of trials on subjective mental beliefs from becoming leverage for the extraction of settlements on weak claims.

---

[3] See, *e.g.*, *Advanced Fiber Techs. (AFT) Tr.* v. *J&L Fiber Servs., Inc.*, 674 F.3d 1365, 1377-1378 (Fed. Cir. 2012); *Tarkus Imaging, Inc.* v. *Adobe Sys., Inc.*, 867 F. Supp. 2d 534, 537 (D. Del. 2012); *Plumley* v. *Mockett*, 836 F. Supp. 2d 1053, 1075-1076 (C.D. Cal. 2010).

2. *An Objective-Unreasonableness Threshold Helps To Stem the Flood of Enhanced-Damages Awards*

As discussed above, Congress enacted the 1952 Patent Act on the century-old understanding that enhanced damages should be reserved for truly egregious conduct. See pp. 9-10, *supra*. Today, however, plaintiffs "routinely" seek enhanced damages. Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After* In re Seagate*: An Empirical Study*, 97 Iowa L. Rev. 417, 442-443 (2012). Scholars estimate that plaintiffs seek enhanced damages 80% or 90% of the time. See *id.* at 442-443 & nn.165-166. Alleging willfulness is low risk (few arguments are sanctionable) and high reward (a plaintiff can triple a judgment). *Id.* at 443. Plaintiffs thus pursue enhanced damages even when they have "a small probability of winning." *Ibid.* (quotation marks omitted).

Yahoo's experience supports those conclusions. Since January 1, 2007, Yahoo has been sued for patent infringement 88 times. Plaintiffs pleaded willfulness in the complaint 40 times, and reserved the right to do so in another 10—in other words, enhanced damages were raised in the pleadings 57% of the time. That suggests plaintiffs assert enhanced-damages claims as a matter of course. Additional data bolsters that conclusion. Only about 44% of the time do plaintiffs bother to contact Yahoo to discuss their claims before suing for enhanced damages. In those cases, Yahoo typically directs its lawyers to investigate allegations of infringement and provide a substantive response on non-infringement and validity (assuming the plaintiff provides sufficient time for response before filing suit). Yet such investigations only seem to *increase* Yahoo's exposure to enhanced-

damages claims: Pre-filing contact leads to allegations of willful infringement about 72% of the time. The fact that good-faith investigations prompt, rather than deter, claims for enhanced damages shows just how pervasive such claims are.

That experience suggests that, even under *Seagate*, enhanced damages are sought far too often. Before the Federal Circuit recognized that willfulness required objective reasonableness, however, the situation was worse. Pre-*Seagate*, district courts regularly awarded enhanced damages in cases that went to trial. Courts awarded enhanced damages 81.4% of the time that a jury recommended them. Seaman, *supra*, at 466. After *Seagate*, that figure fell significantly, to 54.9%. *Ibid.* Those statistics show that, in many cases where juries find infringement to have been "willful," courts nevertheless determine the defendants had reasonable defenses. An objective threshold helps cull weak claims and keep enhanced-damages awards the exception rather than the rule. Cf. *Harlow*, 457 U.S. at 815-816.

3. *An Objective-Unreasonableness Threshold Helps To Mitigate Forum Shopping*

Forum shopping is pervasive in patent litigation, in part because juries and courts in certain districts are far more likely to award enhanced damages than in others. In patent infringement suits, non-practicing entities (*e.g.*, patent trolls) frequently choose a forum that has nothing to do with the parties themselves, but has proved more favorable to plaintiffs in litigation—the Eastern District of Texas. See PricewaterhouseCoopers, *2015 Patent Litigation Study* 15-16 (May 2015). Yahoo has been subject to that forum shopping all too often—of the 88 patent cases filed against Yahoo in the last 8 years, 40 were filed by non-practicing entities in the Eastern Dis-

trict of Texas. By contrast, only three were filed in the Northern District of California, where Yahoo has its principal place of business.

The Eastern District of Texas is attractive to patent trolls for several reasons. Plaintiffs prevail 55% of the time compared to the national average of 33%, and, as relevant here, they have found it far easier to obtain enhanced damages in that district. Pricewaterhouse-Coopers, *supra*, at 15; Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 Yale J.L. & Tech. 193, 222, 232 (2007). According to one study, juries in the Eastern District of Texas found infringement to be willful 52.3% of the time, compared to 35.7% of the time for New Jersey juries and 27.3% for Minnesota juries. Seaman, *supra*, at 450.

The "objective reasonableness" standard for willful-infringement claims helps dampen the incentives for forum shopping. Whether a defendant's construction is objectively reasonable—and thus whether there was objectively an unreasonably high likelihood of infringement—is a legal question resolved de novo by courts. *Cheek*, 498 U.S. at 203; see also *Bard*, 682 F.3d at 1007. "Independent review" allows the appellate court more ability to "maintain control of * * * the legal principles" governing enhanced damages and to ensure their consistent application nationwide. *Ornelas* v. *United States*, 517 U.S. 690, 697 (1996).

As it stands, even under *Seagate*, non-practicing entities are roughly twice as likely to sue Yahoo in the Eastern District of Texas than to initiate a responsible pre-filing discussion of the merits. Moving to a purely subjective standard, however, would only encourage

more entities to run straight to their forum of choice, using the threat of treble damages—based on the jury's speculation about what the defendant's employees might have believed—as leverage for extracting a large settlement.

III. The Federal Circuit Correctly Denied Enhanced Damages Here

The Federal Circuit reached the correct outcome in this case. Petitioner did not produce evidence that respondent acted with the type of bad faith, "wanton or malicious" misconduct that could itself warrant enhanced damages. *Seymour*, 57 U.S. (16 How.) at 489. And the court correctly held that enhanced damages were not available under a willful (*i.e.*, reckless or knowing) infringement theory, as respondent had objectively reasonable defenses to the claim of patent infringement.

1. Petitioner Halo holds patents for "surface-mount packages" for transformers, a component on electronic circuit boards. Pet. App. 4a. The transformers produce heat and expand, which can cause their packaging to crack. *Id.* at 41a-42a. Halo's patented designs address that problem by leaving the bottom of the packaging open to permit expansion. *Id.* at 4a-5a, 43a. This is referred to as "open construction" packaging. *Id.* at 43a.

In 1998—the same year that a Pulse engineer learned of Halo's patents—Pulse introduced a surface-mount transformer with open-construction packaging. Pet App. 7a, 43a. In 2002, Halo sent Pulse two offers to negotiate a licensing agreement, but did not accuse Pulse of infringement. *Id.* at 7a. Pulse's president contacted a Pulse engineer, who reviewed Halo's patents and concluded that they were invalid in view of prior Pulse products. *Ibid.* A Pulse witness later testified, however,

that no one "made a conscious decision" whether Pulse could continue selling its products. *Ibid.*

In 2007, Halo sued Pulse for patent infringement. Pulse defended itself, in part, on the ground that the patents were invalid for obviousness. Pet. App. 7a. A jury rejected that argument and found the patents valid. *Id.* at 8a. The jury found that Pulse had infringed the patents, and awarded Halo $1.5 million in actual damages. *Ibid.* The jury also found it "highly probable" Pulse had infringed willfully. *Ibid.* But the district court declined to award enhanced damages under the *Seagate* standard. It explained that, while Pulse's obviousness defense had failed, it was "not objectively baseless." *Id.* at 64a. Pulse thus "did not act in the face of an objectively high likelihood that [it] was infringing." *Ibid.* The Federal Circuit agreed, and affirmed. *Id.* at 19a-22a.[4]

2. Halo argues that Pulse's "culpable conduct" justifies enhanced damages. Pet. Br. 29-30; see also *id.* at 4-5. The evidence it cites, however, does not meet the criteria for the sort of "wanton or malicious" misconduct that would traditionally support enhanced damages.

Halo's primary argument is that Pulse copied Halo's patented invention. Pet. Br. 29. But all Halo has shown is that Pulse began producing an open-construction package the same year that a "Pulse engineer saw" a Halo patent. *Id.* at 4. Halo does not say what that

---

[4] Under current Federal Circuit precedent, willfulness is absent when the defenses—whether noninfringement or invalidity—are objectively reasonable. See *Powell*, 663 F.3d at 1236. No party to this proceeding has questioned consideration of invalidity. That makes sense. If it is objectively reasonable to believe that selling one's product is lawful—whether because the asserted patent is invalid, or simply does not cover the product—the continued sale of that product is not reckless, or willful, infringement.

engineer's role was within Pulse, or who else within Pulse the engineer disclosed the patent to, if anyone. And reviewing patents is innocent conduct—indeed, precisely the sort of conduct the patent laws were designed to encourage. Halo cites no evidence that anyone within Pulse "maliciously" decided for the company to copy Halo's products and begin producing infringing products to injure Halo. Such purely inferential evidence on copying is not, itself, evidence of the type of bad faith conduct that can sustain an enhanced damages award.[5]

Halo also complains that Pulse ignored two letters in which Halo offered to license its patents. Pet. Br. 29. But those letters were merely invitations to conduct business; they did not allege infringement. Pet. App. 20a. And, in any event, the record shows that, upon receiving those letters, Pulse asked an engineer to review the patents, and he "concluded that the patents were invalid in view of prior Pulse products." *Id.* at 21a. While Halo calls that review "cursory," it never says what, precisely, it believes Halo was required to do. Pet. Br. 29. Tellingly, Halo does not go so far as to urge that Pulse was required to obtain an opinion of counsel to insulate itself against claims of bad faith. *Id.* at 29-30. Pulse's mere failure to respond to a licensing offer hardly shows wanton or malicious intent to injure Halo.

Ultimately, Halo's arguments boil down to the fact that Pulse "admitted that no one in the company made a conscious decision that Pulse could properly sell its

---

[5] Intentional copying, moreover, is "not illegal" so long as a "competitor's product * * * is not protected by the patent laws." *Milgo Elec. Corp.* v. *United Bus. Commc'ns, Inc.*, 623 F.2d 645, 666 (10th Cir. 1980); see also *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231-232 (1964). Hence, copying will not be conclusive evidence of bad faith where there are questions regarding the patent's validity.

infringing products." Pet. Br. 30. At worst, that shows Pulse acted with "inadvertence" or failed to take proper precautions. *Restatement (Second) of Torts* § 500 cmt. g (1965). That is not the type of egregious misconduct that can justify enhanced damages.[6]

3. That leaves Halo's claims of willful infringement. But the Federal Circuit concluded that Halo had objectively reasonable defenses. And Halo does not dispute that Pulse had an objectively reasonable obviousness defense, which precludes a willfulness finding under *Seagate*.[7] In other words, Pulse did not act despite "an unjustifiably high risk" of infringing a valid patent. *Safeco*, 551 U.S. at 68 (quotation marks omitted). Enhanced damages were unwarranted.

CONCLUSION

The judgment of the court of appeals should be affirmed.

---

[6] Halo also urges that "Pulse used its much-greater resources to take advantage of a small competitor, betting on the fact that Halo would not be able to defend its rights." Pet. Br. 30; see *id.* at 4-5. But that is pure attorney argument—Halo cites no evidence that Pulse infringed *because* it thought it could do so with impunity.

[7] In the district court, Halo argued that "Pulse's actions demonstrate objective recklessness." Pet. App. 65a. But as the district court noted, those arguments were directed only "to the subjective element of infringement," and did "not undermine Pulse's reasonable obviousness defense." *Ibid.*

Respectfully submitted.

KEVIN T. KRAMER
Deputy General Counsel – Intellectual Property
YAHOO! INC.
701 First Ave.
Sunnyvale, CA 94089
Counsel for Yahoo! Inc.

JOHN W. SCHMIEDING
Vice President, General Counsel
ARTHREX, INC.
1370 Creekside Blvd.
Naples, FL 34108
Counsel for Arthrex, Inc.

JEFFREY A. LAMKEN
Counsel of Record
MICHAEL G. PATTILLO, JR.
JAMES A. BARTA
MOLOLAMKEN LLP
The Watergate, Suite 660
600 New Hampshire Ave., NW
Washington, D.C. 20037
(202) 556-2000
jlamken@mololamken.com

TUONGVY LE
MOLOLAMKEN LLP
540 Madison Ave.
New York, NY 10022
Counsel for Amici Curiae

JANUARY 2016